

ASSEMBLY BILL NO. 190—ASSEMBLYMAN CARRILLO
(BY REQUEST)

FEBRUARY 18, 2011

Referred to Committee on Judiciary

SUMMARY—Revises certain provisions governing ownership interest in professional entities. (BDR 7-676)

FISCAL NOTE: Effect on Local Government: No.
Effect on the State: No.

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EXPLANATION – Matter in ***bolded italics*** is new; matter between brackets **[omitted material]** is material to be omitted.

AN ACT relating to professional entities; revising certain provisions governing ownership interest in professional entities; and providing other matters properly relating thereto.

Legislative Counsel's Digest:

1 Existing law generally authorizes a professional entity to issue any owner's
2 interest in the entity only to natural persons licensed to render the same professional
3 services as those for which the professional entity was formed. (NRS 89.070) This
4 bill additionally authorizes a professional entity to issue any owner's interest to
5 other natural persons licensed by the same regulating board that licenses such
6 natural persons who render the same professional services as those for which the
7 professional entity was formed, as long as such other natural persons maintain only
8 minority ownership of the professional entity.

THE PEOPLE OF THE STATE OF NEVADA, REPRESENTED IN
SENATE AND ASSEMBLY, DO ENACT AS FOLLOWS:

1 **Section 1.** NRS 89.040 is hereby amended to read as follows:
2 89.040 1. One or more persons may organize a professional
3 entity in the manner provided for organizing a corporation pursuant
4 to chapter 78 of NRS or a limited-liability company pursuant to
5 chapter 86 of NRS. Each person organizing the professional entity
6 must, except as otherwise provided in subsection 2 of NRS 89.050,
7 be authorized to perform the professional service for which the
8 professional entity is organized. The articles must contain the
9 following additional information:



* A B 1 9 0 *

(a) The profession to be practiced by means of the professional entity.

(b) The names and addresses, either residence or business, of the original stockholders and directors of the professional corporation or the original members and managers of the professional limited-liability company.

(c) Except as otherwise provided in paragraphs (d) and (e), a certificate from the regulating board of the profession to be practiced showing that each of the directors, stockholders, managers or members who is a natural person is ~~licensed to practice the profession.~~ *eligible to hold an owner's interest in the professional entity pursuant to paragraph (a) of subsection 1 of NRS 89.070.*

(d) For a professional entity organized pursuant to this chapter and practicing pursuant to the provisions of NRS 623.349, a certificate from the regulating board or boards of the profession or professions to be practiced showing that control and two-thirds ownership of the professional entity is held by persons registered or licensed pursuant to the applicable provisions of chapter 623, 623A or 625 of NRS. As used in this paragraph, "control" has the meaning ascribed to it in NRS 623.349.

(e) For a professional entity formed pursuant to subsection 5 of NRS 89.070, a certificate from the State Bar of Nevada showing at least one stockholder or member who is a natural person is admitted by the Supreme Court of the State of Nevada to practice law as a member of the State Bar of Nevada.

2. The corporate name of a professional corporation must contain the words "Professional Corporation" or the abbreviation "Prof. Corp.," "P.C." or "PC," or the word "Chartered" or the abbreviation "Chtd.," or "Limited" or the abbreviation "Ltd." The corporate name must contain the last name of one or more of its current or former stockholders.

3. The name of a professional limited-liability company must contain the words "Professional Limited-Liability Company" or the abbreviations "Prof. L.L.C.," "Prof. LLC," "P.L.L.C.," "PLLC," or the word "Chartered" or the abbreviation "Chtd.," or "Limited" or the abbreviation "Ltd." The name of a professional limited-liability company must contain the last name of one or more of its current or former members.

4. The professional entity may render professional services and exercise its authorized powers under a fictitious name if the professional entity has first registered the name in the manner required by chapter 602 of NRS.

Sec. 2. NRS 89.070 is hereby amended to read as follows:

89.070 1. Except as otherwise provided in this section and NRS 623.349:



(a) No professional entity may issue any of its owner's interest to anyone other than ~~{a natural person who is}~~ :

(1) Natural persons who are licensed to render the same specific professional services as those for which the professional entity was formed ~~{}~~ ; or

(2) Natural persons who are not licensed to render the same specific professional services as those for which the professional entity was formed, but who are licensed by the same regulating board as the natural persons who hold an owner's interest pursuant to subparagraph (1), as long as the natural persons who hold an owner's interest pursuant to subparagraph (1) maintain majority ownership of the professional entity.

(b) No owner may enter into a voting trust agreement or any other type of agreement vesting another person with the authority to exercise the voting power of any or all of his or her owner's interest, unless the other person is ~~{licensed to render the same specific professional services as those for which}~~ *eligible to hold an owner's interest in* the professional entity ~~{was formed.}~~ *pursuant to paragraph (a).*

(c) No owner's interest may be sold or transferred except to a natural person who is eligible to be an owner or to the personal representative or estate of a deceased or legally incompetent stockholder. The personal representative or estate of the owner may continue to own the owner's interest for a reasonable period, but may not participate in any decisions concerning the rendering of professional services.

➔ The articles, bylaws or operating agreement of the professional entity may provide specifically for additional restrictions on the transfer of an owner's interest and may provide for the redemption or purchase of the owner's interest by the professional entity, its owners or an eligible individual account plan complying with the requirements of subsection 2 at prices and in a manner specifically set forth. An owner may transfer his or her owner's interest in the professional entity or any other interest in the assets of the professional entity to a revocable trust if the owner acts as trustee of the revocable trust and any person who acts as cotrustee and is not ~~{licensed to perform the services for which}~~ *eligible to hold an owner's interest in* the professional entity ~~{was formed}~~ *pursuant to paragraph (a)* does not participate in any decisions concerning the rendering of those services.

2. Except as otherwise provided in NRS 623.349, a person not licensed to render the professional services for which the professional entity was formed may own a beneficial interest in any of the assets, including an owner's interest, held for the person's account by an eligible individual account plan sponsored by the



1 professional entity for the benefit of its employees, which is
2 intended to qualify under section 401 of the Internal Revenue Code,
3 26 U.S.C. § 401, if the terms of the trust are such that the total
4 number of shares which may be distributed for the benefit of
5 persons not licensed to render the professional services for which
6 the professional entity was formed is less than a controlling interest
7 and:

8 (a) The trustee of the trust is licensed to render the same specific
9 professional services as those for which the professional entity was
10 formed; or

11 (b) The trustee is not permitted to participate in any decisions
12 concerning the rendering of professional services in his or her
13 capacity as trustee.

14 ➤ A trustee who is individually an owner may participate in his or
15 her individual capacity as an owner, manager, director or officer in
16 any decision.

17 3. Except as otherwise provided in subsection 4, a professional
18 entity in which all the owners who are natural persons are licensed
19 to render the same specific professional service may acquire and
20 hold an owner's interest in another professional entity or in a similar
21 entity organized pursuant to the corresponding law of another state,
22 only if all the owners who are natural persons of the professional
23 entity whose stock is acquired are licensed in that professional
24 entity's state of formation to render the same specific
25 professional service as the owners who are natural persons of the
26 professional entity that acquires the owner's interest.

27 4. A professional entity practicing pursuant to NRS 623.349 in
28 which all the owners are natural persons, regardless of whether or
29 not the natural persons are licensed to render the same specific
30 professional service, may acquire and hold an owner's interest in
31 another professional entity or in a similar entity organized pursuant
32 to the corresponding law of another state if control and two-thirds
33 ownership of the business organization or association that is
34 acquired is held by persons registered or licensed pursuant to the
35 applicable provisions of chapter 623, 623A or 625 of NRS. As used
36 in this subsection, "control" has the meaning ascribed to it in
37 NRS 623.349.

38 5. An attorney may form a legal services professional entity
39 that is organized or incorporated in the State of Nevada with one or
40 more natural persons, each of whom is a member in good standing
41 and eligible to practice before the bar of any jurisdiction of the
42 United States, and such legal services entity may issue an owner's
43 interest to a natural person who is a member in good standing and
44 eligible to practice before the bar of any jurisdiction of the United
45 States provided that at least one attorney admitted by the Supreme



1 Court of the State of Nevada to practice law as a member of the
2 State Bar of Nevada owns an owner's interest in the professional
3 entity.

4 6. Any act in violation of this section is void and does not pass
5 any rights or privileges or vest any powers, except to an innocent
6 person who is not an owner and who has relied on the effectiveness
7 of the action.

8 **Sec. 3.** NRS 89.080 is hereby amended to read as follows:

9 89.080 1. If any officer, stockholder, director, member,
10 manager or employee of a professional entity organized under this
11 chapter who has been rendering professional service to the public
12 becomes legally disqualified to render such professional services
13 within this State, he or she shall sever within a reasonable period all
14 professional service with and financial interest in the professional
15 entity, but this chapter does not prevent a professional entity formed
16 under this chapter from entering into a contract with an employee
17 which provides for severance pay or for compensation for past
18 services upon termination of professional service, whether by death
19 or otherwise.

20 2. Except as otherwise provided in NRS 623.349, a natural
21 person may not be an officer, director or manager of a professional
22 entity formed under this chapter unless the natural person is
23 ~~licensed to render the same specific professional services as those~~
24 ~~for which~~ *eligible to hold an owner's interest in* the professional
25 entity ~~[was formed.]~~ *pursuant to paragraph (a) of subsection 1 of*
26 *NRS 89.070.*

27 3. Upon the death of an owner of a professional entity who has
28 transferred his or her interest in the professional entity to a
29 revocable trust as permitted by NRS 89.070, the trustee of the
30 revocable trust may continue to retain any interest so transferred for
31 a reasonable period, but may not exercise any authority concerning
32 the rendering of professional services and may not, except as
33 otherwise provided in NRS 623.349, distribute the owner's interest
34 to any person not ~~licensed to render the services for which~~ *eligible*
35 *to hold an owner's interest in* the professional entity ~~[was formed.]~~
36 *pursuant to paragraph (a) of subsection 1 of NRS 89.070.*

37 4. A professional entity's failure to require compliance with the
38 provisions of this section is a ground for the forfeiture of its charter.

